Consolidated Statements of Income

For the 52 weeks ended December 31, 1983, January 1, 1983 and January 2, 1982
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

	1983	1982	1981
Sales	$18,595,217	$17,632,821	$16,580,318
Cost of sales	14,249,843	13,628,052	12,945,923
Gross profit	4,335,374	4,004,769	3,634,395
Operating and administrative expenses	3,920,736	3,653,561	3,363,478
Operating profit	414,638	351,208	270,917
Interest expense	134,270	129,484	120,393
Other income, net	(20,565)	(26,536)	(15,822)
Income before provision for income taxes	300,933	248,260	166,346
Provision for income taxes	117,630	88,600	58,062
Net income	$ 183,303	$ 159,660	$ 108,284
Net income per share	$ 3.26	$ 3.06	$ 2.07

See accompanying notes to consolidated financial statements*

Consolidated Statements of Changes in Financial Position

For the 52 weeks ended December 31, 1983, January 1, 1983 and January 2, 1982
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands)

	1983	1982	1981
Working capital provided:			
Net income	$183,303	$159,660	$108,284
Add charges to income not affecting working capital:			
Depreciation and amortization	264,553	242,371	226,001
Accrued claims and other liabilities	2,542	3,866	15,702
Total working capital provided from operations	450,398	405,897	349,987
Additions to long-term debt	205,935	228,293	168,009
Retirements or sales of property	90,296	153,492	155,227
Exchange rate effects on property and long-term debt	19,732	29,697	33,966
Proceeds from issuance of common stock	168,962	1,193	—
Total working capital provided	935,323	818,572	708,189
Working capital used:			
Additions to property	541,238	511,917	518,330
Payments on long-term debt	266,876	94,618	79,033
Cash dividends on common stock	80,961	69,228	67,900
Cumulative translation adjustments	18,045	29,628	20,973
Other, net	15,470	7,976	23,219
Total working capital used	922,590	713,367	709,455
Net increase (decrease) in working capital	$ 12,733	$105,205	$ (1,266)
Increases (decreases) in components of working capital:			
Cash and short-term investments	$ 11,766	$ 19,733	$ (71,683)
Receivables	18,537	925	15,547
Merchandise inventories	95,264	117,554	206,969
Prepaid expenses and other current assets	(13,966)	13,658	45,175
Notes and obligations payable	26,717	50,561	(30,594)
Payables and accruals	(93,761)	(107,881)	(174,886)
Income taxes payable	(31,824)	10,655	8,196
Net increase (decrease) in working capital	$ 12,733	$105,205	$ (1,266)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

As of December 31, 1983, January 1, 1983 and January 2, 1982
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

Assets	1983	1982	1981
Current assets:			
Cash and short-term investments	$ 75,574	$ 63,808	$ 44,075
Receivables	91,642	73,105	72,180
Merchandise inventories:			
FIFO cost	1,722,260	1,627,440	1,496,775
Less LIFO reductions	289,006	289,450	276,339
	1,433,254	1,337,990	1,220,436
Prepaid expenses and other current assets	128,676	142,642	128,984
Total current assets	1,729,146	1,617,545	1,465,675
Property:			
Land	210,427	174,623	159,113
Buildings	305,006	279,736	232,139
Leasehold improvements	459,711	403,413	375,407
Fixtures and equipment	1,789,136	1,610,584	1,497,632
Transport equipment	173,576	165,761	155,189
Property under capital leases	1,155,493	1,140,436	1,187,204
	4,093,349	3,774,553	3,606,684
Less accumulated depreciation and amortization	1,731,138	1,572,602	1,477,092
Total property, net	2,362,211	2,201,951	2,129,592
Excess of cost over net assets acquired	16,557	14,301	16,234
Other assets	66,449	56,836	40,814
Total assets	$4,174,363	$3,890,633	$3,652,315

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	1983	1982	1981
Current liabilities:			
Notes payable	$ 50,156	$ 88,028	$ 141,208
Current obligations under capital leases	45,841	45,564	46,384
Current maturities of notes and debentures	24,723	13,845	10,406
Accounts payable	1,017,094	948,632	868,143
Accrued salaries and wages	163,021	149,492	136,628
Other accrued expenses	154,373	142,603	126,075
Income taxes payable	43,081	11,257	21,912
Total current liabilities	1,498,289	1,399,421	1,352,756
Long-term debt:			
Obligations under capital leases	765,307	767,309	809,393
Notes and debentures	422,362	488,877	328,223
Total long-term debt	1,187,669	1,256,186	1,137,616
Accrued claims and other liabilities	98,051	97,931	86,845
Total liabilities	2,784,009	2,753,538	2,577,217
Stockholders' equity:			
Common stock—$1.66⅔ par value. Authorized 75,000,000 shares Outstanding 58,759,976; 26,149,743 and 26,115,917 shares	97,933	43,583	43,527
Additional paid-in capital	222,851	64,573	63,436
Cumulative translation adjustments	(114,087)	(96,042)	(66,414)
Retained earnings	1,183,657	1,124,981	1,034,549
Total stockholders' equity	1,390,354	1,137,096	1,075,098
Total liabilities and stockholders' equity	$4,174,363	$3,890,633	$3,652,315

Consolidated Statements of Stockholders' Equity

For the 52 weeks ended December 31, 1983, January 1, 1983 and January 2, 1982
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

	Common Stock			Additional	Cumulative	
	Shares Outstanding	Shares in Treasury	Amount Outstanding	Paid-in Capital	Translation Adjustments	Retained Earnings
Balance, January 3, 1981	26,115,917	13,601	$43,527	$ 63,436	$ (45,441)	$ 994,165
Net income						108,284
Cash dividends ($1.30 per share)						(67,900)
Translation adjustments					(20,973)	
Balance, January 2, 1982	26,115,917	13,601	43,527	63,436	(66,414)	1,034,549
Net income						159,660
Cash dividends ($1.325 per share)						(69,228)
Translation adjustments					(29,628)	
Stock issued under stock option plans	33,826		56	1,137		
Balance, January 1, 1983	26,149,743	13,601	43,583	64,573	(96,042)	1,124,981
Net income						183,303
Cash dividends ($1.425 per share)						(80,961)
Translation adjustments					(18,045)	
Stock issued under stock option plans (pre-split)	50,264		84	1,841		
Stock issued in 2-for-1 split	26,200,007	13,601	43,666			(43,666)
Stock issued under:						
Public offering	5,500,000		9,167	136,729		
Dividend reinvestment plan	564,019		940	13,403		
Stock option plans	150,310		250	2,470		
Tax Reduction Act Stock Ownership Plan (TRASOP)	145,633		243	3,835		
Balance, December 31, 1983	58,759,976	27,202	$97,933	$222,851	$(114,087)	$1,183,657

See accompanying notes to consolidated financial statements.

Highlights

(in thousands, except per share amounts)	1983	1982	1981
Sales	$18,585,217	$17,632,821	$16,589,318
Net income	183,303	159,660	108,284
Per share	3.26	3.06	2.07
Dividends per share	1.425	1.325	1.30
Stockholders' equity	1,390,354	1,137,095	1,075,038
Per share	23.66	21.74	20.59
Market price range:	30–21¼	25⅛–13⅞	19⅞–12¼

Note: Per share amounts adjusted to reflect the 2 for 1 stock split in 1983.

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Message to Stockholders

James A. Rowland

Fiscal 1983 was another year of excellent progress for Safeway. For the second year in a row we met or surpassed most of our annual operating objectives and financial goals, despite intense competitive pressures. In so doing, we strengthened our market position to help ensure continued success in 1984 and beyond.

Sales and earnings were at record levels again. Consolidated sales reached $18.59 billion, up 5.4 percent from 1982, while net income rose 14.8 percent to $183.3 million or $3.26 per share.

We are encouraged that sales growth continues to outpace inflation. Both tonnage and customer transactions were up for the third consecutive year.

Pre-tax earnings increased 21.2 percent in 1983, reflecting the resurgence in operating income begun a year earlier. Application of the LIFO method of valuing certain inventories had a negligible effect on pre-tax earnings in 1983, as compared to the charge of $13.1 million the year before.

Earnings increased primarily as a result of operating improvements in the U.S. and continued strong performance by overseas divisions. Recent efforts to become more price competitive and to enhance our merchandise assortment and presentation are paying off, particularly in the U.S. During the past two years we have significantly improved our sales position in a number of key domestic markets. Overseas, all operations reported gains over the previous fiscal year. Australia did exceptionally well, with earnings recovering to a record level after being severely depressed in 1982. Results in the United Kingdom and West Germany were also well ahead of fiscal 1982.

Other factors contributing to the upward trend in consolidated earnings include an accelerated store expansion program (see below), improved productivity throughout our operations, and ongoing efforts to control expenses. As noted in previous reports to stockholders, Safeway today is a leaner, more efficient company than in the past. Over the last three years we have consolidated our U.S. retail divisions from 21 to 17, closed several meat prefabricating plants and produce prepackaging facilities, and discontinued operations in a number of non-food warehouses and supply plants, reducing our backstage work force by some 3,600 positions.

Perhaps the most gratifying aspect of our earnings recovery is the manner in which it has been achieved. In 1980 when we set out to revitalize the company's performance, we chose to take the "long view" knowing that choice would likely result in some sacrifice of short-term results. It did, but we stuck to our game plan. In retrospect, however difficult or unpopular it may have been to abide by that decision, we are now convinced it was the right one. The company's improved operating performance and stronger financial position were undoubtedly major reasons why the price of Safeway common stock has doubled in the last two years. During that time the Board of Directors has increased the quarterly dividend twice, approved a dividend reinvestment and stock purchase plan, and declared a 2-for-1 split of common shares (the first such action since a previous 2-for-1 split in 1964).

In a related development, last May we sold 5.5 million shares of common stock. This was the first public offering since Safeway's incorporation in 1926. Proceeds from the sale, $146 million, were used to repay a portion of the company's commercial paper borrowings.

Capital expenditures exceeded $500 million for the third consecutive year. Most of the funds were used to finance an ambitious store development program. During 1983 we opened 145 stores while closing 92. Planned openings should exceed closings again in 1984, reversing a generally downward trend in our store count over the last 10 years. We will also continue to emphasize "new business" stores; 83 of the stores opened in 1983 are located in communities or trading areas we had not served previously.

Net additions to total store area, including the 32 expansion remodels completed last year, amounted to 3 million square feet, a 4.5 percent gain. We anticipate a significantly higher increase in 1984.

In support of these stores, we made substantial investments in advanced technology. These include two ultramodern supply facilities—a new charcoal briquet manufacturing plant and a major addition to our recently opened dry pet food plant. We also equipped 305 stores with checkstand scanning systems and expect to add another 425 this year, which will bring the total to about 1,050 by the end of 1984. To monitor and control energy use, we installed an additional 145 computer-assisted power management systems and upgraded installations in 136 other stores. By year-end, 1,300 stores will have these systems in place.

In recent months we have acquired six Dominion stores in the central Canadian provinces, 15 Brentwood Markets in Northern California, six co-op A&P outlets in West Germany, and 43 Weingarten stores in Southeastern Texas and Louisiana. As this report went to press, we signed an agreement to purchase 23 Thriftimart supermarkets in Southern California; the agreement is subject to the usual conditions and approvals for such transactions. We believe these acquisitions will contribute substantially to the company's performance in terms of efficiencies of scale and other economies.

At its December 1983 meeting, the Board of Directors elected two new members: Samuel H. Armacost, president and chief executive officer of BankAmerica Corporation, and Steven Muller, president of The Johns Hopkins University. They were joined in February of this year by a third new director, Canadian Peter C. Bawden, chairman of the Bawden Group and a former member of Parliament. We stand to benefit greatly from their diverse talents and look forward to their active participation in the company's affairs.

Last May we bade farewell to Charles de Bretteville, who served with distinction for 27 years as a Safeway director. Another respected member of the board, Anthony G. Anselmo, will retire as of the close of this year's Annual Meeting. On behalf of their fellow directors, we convey our sincere gratitude for their dedicated service.

A number of senior management changes occurred in 1983. President Dale L. Lynch, whose Safeway service spanned four decades, and General Counsel Robert J. Van Gemert, a 33-year veteran, both retired at year-end following outstanding careers. Mr. Lynch's successor is James A. Rowland, previously head of all retail operations. Succeeding Mr. Van Gemert is Bernat Rosner, formerly assistant general counsel.

In a related development, we established an Office of the Chairman composed of the chairman, president and three newly designated executive vice presidents: Harry D. Sunderland and Edward N. Henney, formerly senior vice presidents for finance and supply operations, respectively; and E. Richard Jones, previously a principal with the management consulting firm of McKinsey & Company. Two other well qualified executives from outside the company have also assumed key positions in recent months. They are Robert E. Bradford, responsible for public affairs, and Roderick W. Davis, in charge of management information systems. Both were recently elected senior vice presidents and designated executive officers, as was Mr. Rosner.

On a sad note, we mourned the death last August of Calvin P. Pond, senior vice president–public affairs. One of Safeway's best known executives, Mr. Pond was highly regarded throughout the business community and at all levels of government. He will be missed.

One of our recently formulated corporate objectives is to forge a partnership of shared interests among our employees. To help achieve that goal, in 1983 we took advantage of recent federal legislation which provides tax incentives to employers who voluntarily start stock ownership programs for their workers. Under our plan, some 70,000 additional employees now own Safeway stock—and will be receiving this and future reports to shareholders—at no cost to them. We are convinced the company has made a sound investment that will yield solid returns.

On the following pages we salute our people, the essential resource in whose hands our destiny lies. With most employees now sharing in the success they make possible, they are true partners in progress.

In November the Federal District Court in Fort Worth, Texas, granted Safeway's motion to terminate a 26-year-old consent decree. The decree imposed complex and burdensome regulations on our pricing activities, over and above those applicable to our competitors. In supporting the company's motion, the U.S. Justice Department cited the obsolete and anti-competitive features of the decree.

We are also pleased to relate the successful outcome of a costly, drawn-out antitrust lawsuit brought by a small number of beef producers and feeders (and opposed by most of the beef industry) against Safeway and other retailers. On February 17, 1984, the U.S. Supreme Court left standing the lower courts' ruling that the plaintiffs in these cases were not entitled to monetary damages.

In concluding last year's message to stockholders, we enumerated several ongoing developments that bode well for the food industry. To those we could now add the restoration of consumer confidence to its highest level in five years, the generally expected recovery of foreign currencies vis-a-vis the U.S. dollar, and the gradual resurgence of the Canadian economy. Moderating these anticipated beneficial trends are uncertainties about our own economy in a presidential election year—particularly with respect to interest rates—and an increasingly competitive environment.

Against this backdrop of opportunities and challenges, we remain cautiously optimistic about prospects for another good year in 1984.

Peter A. Magowan

Peter A. Magowan
Chairman of the Board and
Chief Executive Officer

James A. Rowland
President and
Chief Operating Officer

March 2, 1984

Hurdler Cody Cooper, a mailroom employee in the corporate offices in Oakland, is vying for a spot on the U.S. Olympic track and field team.

John Moreno, a part-time food clerk and nine-year Safeway veteran, hopes to be one of three men to represent the U.S. in the marathon at the summer games in Los Angeles.

Spearheading our corporate sponsorship of the U.S. Olympic Team are Ron Giglio, advertising and promotion division manager; Ed Hunney, executive vice president–supply operations; Floyd Crowe, vice president and manager, marketing division–supply; and John Prinster, senior vice president–marketing.

Perhaps nothing we did in 1983 expresses the theme of our annual report quite as well as our sponsorship of the U.S. Olympic Team. The same values that have made the Olympics the world's premier sporting event are the values we strive for daily on Team Safeway. We set our sights high and aim for excellence in all we do. We compete aggressively, but play by the rules. We gain personal satisfaction in our individual achievements, but find our greatest reward in what we accomplish together.

As an official team sponsor, we are feeding athletes, coaches and trainers at the U.S. Olympic Committee's complexes in Lake Placid and Colorado Springs. At training tables in Colorado Springs, some 12,000 Olympic hopefuls will have eaten meals provided by Safeway over the course of our two-year commitment. Supplying the complex from our Denver distribution center, during a typical pre-trials week we may deliver 1,000 pounds of fresh meat, 800 gallons of milk, 200 cases of Safeway Brand canned goods, 120 pounds of cottage cheese, 195 gallons of ice cream and 225 pints of yogurt. In addition, we have committed substantial funding for other food purchases and are making a cash donation to the U.S. Olympic Committee for every half-gallon of Lucerne ice cream sold in this country.

Our customers have caught the spirit, too. In a promotion to benefit American athletes in training, Safeway shoppers turned in more than 150 million aluminum cans for recycling.

When you feed America's finest amateur athletes three times a day, seven days a week, you become more than just their team sponsor. You become part of their lives. We are extremely proud to be so closely associated with these extraordinary young men and women in their quest for Olympic gold.

We are just as proud to be part of the lives of the 162,000 individuals of Team Safeway. Featured on the pages of this report are five of the exceptionally talented employees whose dedicated efforts have made Safeway the world's leading food retailer. They are exemplary players, to be sure, but represent only a few of the winners in a much larger family of champions.

Bob Twogood, assistant store manager

W[illegible] ... [illegible] ... [illegible] ... [

His job at Safeway, coupled with workouts both in his boat and in the gym, leave Twogood with little time for relaxation. When he finds a spare moment, he often heads for Oahu's goals with snorkle and fins.

Twogood is one of at least a dozen members of the Safeway extended family (either employees or close relatives of employees) who has a good chance of suiting up for the summer games in Los Angeles. The same qualities that took these young competitors to the top rankings in their respective events will serve them—and their employers—well in the future.

In Twogood's case, for example, his Olympic training has reinforced a realistic philosophy that balances goals against costs. In order to devote more time to training, he temporarily resigned his position as an assistant store manager and became a part-timer. He knows he will receive no special consideration when it is time to return on a full-time basis. He will have to work his way back up, competing with other employees. But that doesn't bother him.

"The Olympics is something I decided I just had to do," says Twogood. "It is no different from a career or anything else. First you set a goal for yourself. It must be challenging but attainable. Then you figure out what it's going to take to get there and, if you are willing to pay the price, you go for it with all you have. It's a rare individual who can achieve any kind of meaningful goal by giving it only eight hours a day. You must think about it while you're relaxing, while you're having dinner, while you're in the shower. If you aspire to excellence you will find a way to achieve it."

For the moment, Twogood's goal is the Olympics, but come August that will change.

"I am definitely a career employee," he says. "In the seven years I've been with the company, Safeway has given me the chance to show what I can do. If I keep paddling after the Olympics, it will only be for recreation. It will be time to set a new goal, and this time it will be a career goal."

Informed Decision-Making

Ron Parmelee, manager of the Electronic Store Level Systems Division, checks out new scanning hardware with Ken Shipman, one of his department managers. More than 1,000 Safeway stores will be equipped with these technological marvels by the end of 1984.

Group Vice President John Bell has been an enthusiastic user of new information tools that improve the quality and timeliness of crucial retail decisions.

Accounting operations have been targeted as a key area for automation under Jeffa Dale (right), senior vice president and controller.

Technology is reshaping the business landscape. To take full advantage of its exciting potential for managing our operations better, we have redefined the philosophy, direction and strategy of our information services and planning.

Safeway has made a major commitment to information systems. The challenge is to turn that potential into profit by focusing on areas that offer the greatest returns. We believe our Management Information Systems (MIS) plan does just that.

The plan encompasses all areas of our operations and all aspects of our business. Some systems will provide immediate company-wide data on the availability of perishables, more timely payroll processing, hour-by-hour profiles on product movement, and virtually instantaneous sales reports. Other systems will help our people make faster and better decisions on product pricing, stock replenishment, delivery scheduling, truck routing, and allocation of shelf and storage space in our stores and warehouses. Others will help us reduce administrative expenses through office automation, streamlined accounting procedures and improved record keeping.

With technology changing almost daily, competitive advantage can shift quickly, so we have developed an information strategy that is both reliable and flexible. It focuses on our people—the one link in the information chain that can absorb the impact of change, capitalize on the opportunities it presents, and steer us away from the seductive illusion of technology for technology's sake.

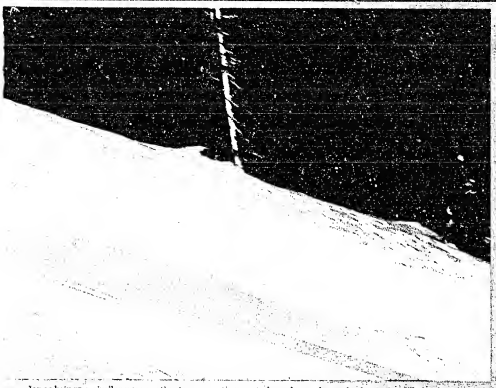
As in all we do, the development of new information systems is a team effort. We are erasing the traditional turf boundaries between technician and tactician, and encouraging our retail managers to seek out new ways to apply technology to our business.

Through this approach, we confidently expect to lead the industry in developing innovative uses for new technology.

Rick Jones, executive vice president

Rick Jones, executive vice president, Information Services and Planning, came to Safeway in 1982 from the management consulting firm of McKinsey & Company, where he had been a partner. His 12 years of consulting experience have given him a unique blend of skills and knowledge that round out our top management team, the Office of the Chairman.

Jones now oversees Safeway's data processing, accounting and planning activities—the three principal building blocks of our plan for more informed decision-making. An accomplished administrator, he couples an intimate knowledge of information systems with a people-oriented management style. "It is the people, not the computers, who will make the systems work," says Jones. "Our retail operators will help design them. Our MIS staff will then develop the best systems to meet our operating needs."



Though Jones' professional and volunteer duties leave little time for rest and relaxation, he makes the most of an occasional Sierra ski weekend.

"I've always been crazy about zoos," says Jones. "I try to find time to get to one wherever I'm traveling."

Jones, chairman of the San Francisco Zoological Society, discusses plans for the new primate center with executive director, Peggy Burks.

Jones discusses floor plans with Red Davis, recently appointed senior vice president, MIS, at our computer center in Oakland. Davis has an extensive background in information systems for the food industry.

Jones brings a similar perspective to accounting. "We want to use accounting to manage the business better," he says. "Our information needs to be current. When we get it months, weeks, or even days after it has happened, it is often too late. At the same time, we don't want to drown in a sea of paper. To prevent this, we are working on more exception reporting, which enables us to look only at the information we need."

Jones takes an equally pragmatic view of planning. "Planning for the future is one of our most difficult management challenges," he says. "We must have sound analysis, but we must avoid analyzing things to death. Most important, we must be ready to change—to react to new opportunities."

Jones' management philosophy is disarmingly simple: "We have to provide guidance, but decentralize decision-making. When we do that, our employees will find the right solutions—they will come up with the answers. This company is too big for a few people at the top to control everything."

In describing his management style, Jones says "I like to meet with the people who will have to get the job done. We set some mutual goals and deadlines, then I drop out until it's time for those things to have been done. At that point, I'll check to be sure that what we agreed to has, in fact, been accomplished."

That is not to say Jones is strictly a hands-off manager. He is also a doer who loves a challenge.

While at McKinsey, for example, he headed up a study of the San Francisco Zoo, aimed at making improvements in the face of declining attendance and support. One of his recommendations was to strengthen the Zoological Society's board of directors. "When I was asked to join the board, I could hardly say no," he says.

Jones joined Team Safeway in a similar fashion. While in charge of the MIS phase of an extensive study of Safeway management, he made sweeping recommendations for upgrading the company's information systems. Now, he is responsible for seeing that those recommendations become realities. "The change from *recommending* to *doing* is even greater than I thought it would be," he concedes, "but, fortunately, so is the satisfaction from seeing things happen."

We continued to accelerate the installation of automatic teller machines during 1983. With ATM's, one-stop shopping convenience at Safeway now includes in-store financial services.

Steve Boone, Liquor Barn operations manager, discusses a soon-to-be-released vintage with Sam Sebastiani. Visits such as this one to the Sebastiani family winery help the Liquor Barn team stay on top of new developments and changing tastes in a complex and subtle business.

Joe Benetti, chief operating officer of the newly formed Brentway, Inc., brings a wealth of experience and knowledge about super warehouse-type stores to Team Safeway. These large stores — which feature a wide selection of merchandise, strong emphasis on produce, and everyday deep-discount pricing — are becoming increasingly popular.

Stephanie Bray, pharmacy manager at Store #989 in Vallejo, California, has found a career path with Safeway. This company operated 303 in-store pharmacies as of year-end 1983.

It is fitting that the word *entrepreneur* comes to the business lexicon from the fine arts. In the corporate environment, entrepreneurship is the realm in which the individual spirit is encouraged to seek its own limits, yet meld with the collective ideas of others to create something greater than the mere sum of the parts. It is the stuff of leaders.

Our Liquor Barn operation may be the most obvious example, but it is only one entry on a growing list of innovative ideas which are now working to the mutual benefit of stockholders, employees and customers.

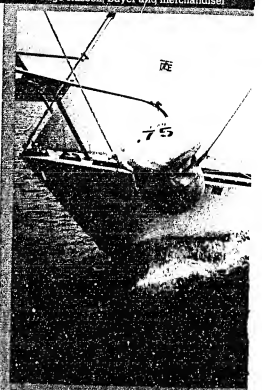
With the addition of 42 new in-store pharmacies in 1983, we surpassed the 300 mark (up from just 27 installations in 1979). Entering a new venture by opening 11 DFL (Drugs For Less) stores in the Dallas, Houston, and Oklahoma City markets, we established a base of operations to evaluate the deep-discount drugstore business. Through Pak 'n Save markets, part of the 15-store Brentwood acquisition in the San Francisco area, we are gaining experience operating super warehouse stores.

We continue to accelerate the installation of automatic teller machines (ATM's) in our stores. There were 230 in place at year's end, and more planned for 1984. To improve productivity and reduce energy costs, more than 600 of our stores are equipped with electronic scanners and more than 1,000 have automated power management systems.

In response to increasing consumer interest in good health, we have opened full-line natural food centers in some 850 stores; installed self-service bulk food bins in approximately 1,000 others; established an award-winning nutrition awareness program; and expanded our produce variety and selection while improving its quality. We are introducing the "farm fresh" look in our produce departments, complete with canvas awnings, subdued track lighting and orchard bins.

These are but a few of the many creative ideas that are springing from the fertile minds of our employees. They reflect the insight, inspiration and hard work of many individuals whose combined contributions form the essence of Team Safeway.

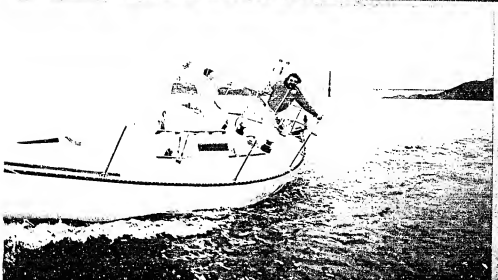
Alan Page-Russell, buyer and merchandiser



Wine adviser [illegible] a dream to [illegible] so [illegible] the [illegible] we are starting with that, in the Liquor Barn stores. Now, how do we do that, why?

In the words of Alan Page-Russell, senior merchandiser, [illegible] "We're looking for ways to differentiate [illegible] in the Liquor Barn."

But [illegible] about [illegible] Page-Russell. "They are [illegible] [illegible] [illegible] Liquor Barn's [illegible] buyer, [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] good merchandising [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]



Fair days and foul are likely to find Russell sailing on San Francisco Bay. It is more than a pastime. "When I am on the water I can forget about work for a while, then suddenly the solution to some nagging problem will just pop into my head," he says.

Many of Russell's co-workers were attracted to Liquor Barn for the same reason he was. They sensed the team spirit. "We work together. We are family — and that may be the most exciting thing happening in any merchandising organization in the country," says Russell.

The excitement and creativity expressed by Russell do more than make Safeway a stimulating place to work. They yield tangible results.

Until 1983, for example, the practice of buying cases of fine Bordeaux vintages against future delivery was a privilege reserved for patrons of small, exclusive wine shops. Thanks to Russell's suggestions, and the efforts of fellow employees, the connoisseur or small investor can now purchase Bordeaux futures through Liquor Barn at attractive prices.

The fraternity that abounds in Liquor Barn goes beyond immediate organizational boundaries. "We are all members of the Liquor Barn team, but that is only one component of the larger corporate team," says Russell. "We work in concert with buyers and merchandisers for Safeway's conventional stores. We share ideas and refine concepts. Although we consolidate our purchases to minimize costs, and take mutual advantage of promotional offers, we don't get locked into a 'big buy' philosophy. We remain attentive and flexible enough to pick up on the small buys and specialty items our customers demand. If it is wine, beer or spirits — and even one customer wants it — we will find a way to get it. As our slogan says, 'You get whatever you want, and you get it for less!'"

"The team philosophy at Liquor Barn is not confined to the company, either. It extends into the agricultural and mercantile communities as well. "I don't buy everything over the phone," says Russell. "I am out in the field a lot of the time. I go out and meet the vintners. I get to know them. I talk to them. They talk to me. I come to understand their needs, and they understand mine. They tell me what's going on in the industry — what will be coming up in the future. Sometimes a little tidbit of information I pick up this way can give me a few days — or even a few weeks — advantage over a competitor."

This sense of cooperation, heightened by the excitement of competition, creates a special incentive for employees such as Russell.

"My freedom is limited only by the amount of work I make for myself," he says. "I work 'til the job is done."

Russell's duties as a buyer for Liquor Barn include conducting wine tasting classes for Safeway employees. The exercise assures a more knowledgeable and responsive retail staff, and increases the sense of camaraderie that has become a Liquor Barn hallmark.

Brett Moulton, management training graduate

CEO Peter A. Magowan regularly meets with store-level and backstage employees in open roundtable discussions such as this one in Phoenix.

Bob Jacobson, bread plant manager in Clackamas, Oregon, has spearheaded employee fitness and participative management programs that have spread to other operations.

A cast of puppet characters introduced Safeway employees to PAYSOP, a new stock ownership plan.

Employees at our supply operations complex in Walnut Creek, California, enjoy a company-built fitness course.

In 1983, we redoubled efforts to strengthen bonds between management and employees. Through policies, programs and publications, we try to recognize our employees as unique, three-dimensional individuals. Their needs do not end with the day's work, but continue throughout the full spectrum of life. We invite their participation in management directions and decisions, and strive to create a working environment that encourages them to reach their greatest potential.

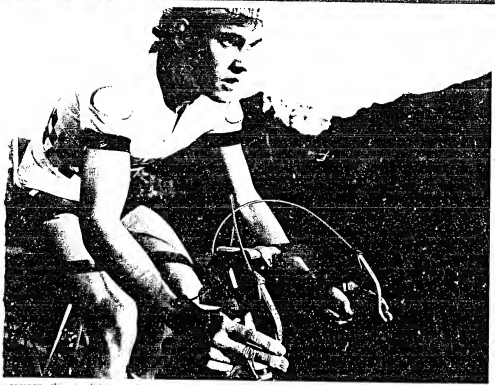
Top executives frequently meet with small groups of non-management employees in candid roundtable discussions. There are no restraints, no taboo topics. Employees are encouraged to "play hardball," to ask the tough questions. And they do. Grass-roots quality circles and sounding boards, which bring employees and management into close communication on a regular basis, are also growing in popularity.

In keeping with our stated objective of forging a partnership among all employees, Safeway was quick to take advantage of new federal legislation which grants tax credits to corporations that voluntarily establish payroll-based employee stock ownership programs (PAYSOP). When we began our program in January 1983, we created some 75,000 new stockholders within our U.S. work force. As their stake in the company grows, we believe their commitment to corporate goals will grow as well.

During 1983, we also launched an ambitious attitude survey program through which we will poll all employees in each retail division every other year. Compiled results will enable us to keep better informed of employees' needs and interests so we can respond to them more effectively.

Although Brett Moulton is an exceptional individual, in many ways he is typical of the bright young employees who begin their Safeway careers as part-timers during their college years. Attracted to the company by flexible working hours that accommodate their class schedules, they often find themselves well along the path to success when graduation rolls around.

Moulton has been on board as a full-timer for only two years, but has already made good use of employee development opportunities. A graduate of the Store Management Training program, he is now working in a Phoenix store, hoping he will soon be tapped as an assistant manager. Last summer Moulton, along with seven fellow employees, participated in one of the roundtable sessions CEO Peter A. Magowan has conducted around the country. "In a



company this size it is sometimes easy to feel alienated," says Moulton. "You get the feeling that the people at the top may be too far removed, that they just see the big picture and may not be fully aware of everything that's happening in the stores."

That attitude changed, though, after the meeting.

"I was amazed at how much Mr. Magowan knew about what goes on in the stores—little details I didn't think anyone above a district manager would know," Moulton recalls. "I came away with a new perspective—a feeling that my efforts can make a difference and that my opinions do matter. I know I don't have to hold back just because my ideas may not fit with the way things are being done now."

Moulton sees himself as a "career employee" and has his sights set on corporate management. At the same time, he recognizes the value of his early years with the company. "Nothing can replace a strong retail background in this business," he says.

"Marketing, communications and employee relations is where Safeway's future lies," speculates Moulton, "and I will find my niche somewhere in those areas." Toward that end, he is making plans to pursue a master's degree in business administration with some help from Safeway's tuition reimbursement program.

Even in the short time he has been with the company, Moulton has noticed positive changes. "There seems to be a concentrated effort toward improving relations and communication between corporate management and the employees," he says. "I think that philosophy has always been there, but it is becoming much more prevalent," he adds.

A tennis instructor and sanctioned tournament player, Moulton is described by opponents as a fierce competitor. That trait will serve him well in the low-margin business of food retailing.

Moulton and Frank Holliway, an assistant manager in the Phoenix Division, put the finishing touches on a produce display. As a graduate of our Store Management Training program, Moulton has gained experience in virtually every phase of retail operations.

Drive, determination and endurance, the same qualities that make Moulton an accomplished cross-country cyclist, benefit Safeway while he is on the job.

The tangible rewards of hard work — or of hard play — are second only to the sense of accomplishment.

Safeway CEO Peter Magowan introduces Treasury Secretary Donald T. Regan at the company's division managers' meeting in Washington, D.C.

President Ronald Reagan, Kathryn Cain, our Dallas Division public relations manager, and John Dvorak, warehouse manager of the North Texas Food Bank, at the opening of that Safeway-supported facility.

Mark Bixler, an accounting clerk in our supply operations, wheeled some 536 miles from San Francisco to Los Angeles to help raise money for the American Paralysis Association and dramatize the need for spinal cord injury research.

A joint effort between Safeway and Alcoa netted some $10,000 for the U.S. Olympic Team and recycled 150 million aluminum cans last June. In all, Safeway recycled an estimated 30 million pounds of aluminum in 1983.

The neighborhood supermarket is more than a grocery store. It is part of the community. It provides the community with the basic commodities of life—and some of its frills and entertainments. It provides jobs, pays taxes and stimulates commerce. More important, it provides people who care; people who give their time, energy and talent to those around them.

As a decentralized organization, we rely on the judgment of our division managers and employees to guide us in our civic and community involvement. It makes for an interesting mix of activities, uniquely suited to each operating area.

In the Washington, D.C. Division, for example, Safeway employees spearheaded an Easter Seal drive that brought in more than $250,000, while across the continent, in our Portland Division, we cooperated with the University of Oregon in presenting a nutrition fair.

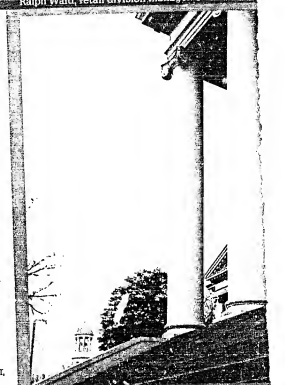
In San Francisco, Safeway worked closely with Mayor Dianne Feinstein's office while locating a suitable site, then constructing a superstore in an urban redevelopment area. When record storms threatened high-country deer and elk with starvation last winter, our Denver Division was quick to respond by donating the use of Safeway trucks to haul feed to grazing areas.

Although most community and civic participation occurs locally, we do take on some projects at the corporate level. For example, last year we designed, printed and distributed some 30,000 posters for National Consumers Week. We also continued our involvement with the Association of Retarded Citizens and served as a "pacesetter" company for the United Way's 1983 campaign.

We take special pride in assisting one of our own, such as Mark Bixler, a remarkable young accounting clerk in our supply operations. A paraplegic, Bixler made a torturous wheelchair journey from San Francisco to Los Angeles to help raise money for the American Paralysis Association. The company will match funds raised by employees for this cause.

These are but a few of the many ways Team Safeway meets its responsibilities to the communities it serves.

Ralph Ward, retail division manager

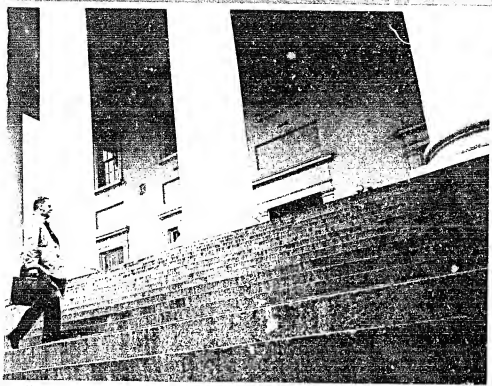


To Ralph Ward, [illegible] Division, citizenship is more than a word. For [illegible] years, he's been active in civic and community affairs [illegible] professional as well as his personal life.

"It's just another part of the puzzle of doing business," says Ward. "I don't consider myself a great humanitarian, but I do have feelings for people who are less fortunate. That is basically [illegible] and Safeway — have a platform of community and governmental programs in the Richmond area.

"I try to run the division the same way I ran the first store I managed back in Washington, D.C.," says Ward. "I was the new kid on the block and had to show the residents I was serious about their community — that I intended to stay and become a part of it. I just had the feeling that, all else being equal, if people like you maybe they will come to your store to shop."

Ward encourages all employees to become involved in community projects. "We have to recognize that we operate on a very small net profit, so we are not as able as companies in some other industries to make large cash grants. But we employ a lot of people, and their energy and talents are often more valuable than large sums of money," he claims.



Ward sets the pace for his employees by his own example. He maintains a personal network of contacts in both state and municipal government, as well as with a number of civic organizations. "Where possible," he says, "I try to find activities that are related to the food industry." That strategy has involved Ward and Safeway in programs with food banks, consumer groups, and local growers and producers.

A community's needs extend beyond food, however, and Ward often lends support to other activities as well. He has involved Safeway in programs for the handicapped, the Urban League and United Way. For several years, the division has sponsored *Battle of the Brains*, a twice-weekly PBS television show that pits top students from 40 public schools against one another in academic competition.

It is difficult to trace the results of community spirit to the bottom line of the corporate balance sheet, but it is not hard to find evidence of the goodwill it generates. Perhaps the words of Dr. Roy West, Richmond's mayor, sum it up best:

"When I was coordinator of Armstrong High School's distributive education program, we were constantly trying to find meaningful and educational employment for black youths," says West. "That was very difficult in the early 60's—especially when we wanted to place our kids in white neighborhoods. I thought we would never be able to get big corporations to participate. I thought they were too cold—just interested in that old bottom line. I was wrong—at least about Safeway. They always came through for us. Every year they would bend over backward to find appropriate jobs for our kids."

Although Ward was not in Richmond at that time, he inherited the precedent of corporate responsibility and came well-prepared to continue it. "It is, after all, a natural way to do business," says Ward. "If you want to be a leader in your industry, you'd better live up to the responsibilities of leadership."

Ward discusses plans for the "We have it made in Virginia" promotion with S. Mason Carbaugh, state commissioner of agriculture and consumer services. By supporting the program in its advertising, Safeway was able to increase sales of products made and grown in Virginia by 38 percent in selected stores.

Ward compares Safeway and competitors' ads in a meeting with district managers and division staff.

Informal meetings with community and civic leaders, such as this one with Richmond Mayor Dr. Roy A. West in the city council chambers, are a common occurrence in Ward's work day.

Ward irons out last-minute production details in the Safeway-sponsored TV show, *Battle of the Brains*, with producer Sharon Johnson (center) and Dr. Ida Hill, station manager of Richmond's WCVE-TV.

James A. Rowland
President and Chief
Operating Officer

Group vice presidents for U.S. retail operations: Fred E. MacRae, William H. Maloney, John Bell

John S. Kimball, group vice president, International operations

Robert H. Kinnie, president and chief executive officer Canada Safeway Limited

As of fiscal year-end, Safeway and its subsidiaries operated 2,507 stores in the United States, Canada, the United Kingdom, West Germany and Australia. Regional alignment of retail operations is shown below. Group vice presidents report to James A. Rowland, president, as does the president of Canada Safeway Limited.

United States

John Bell, Group Vice President
Phoenix Division, Robert R. Taylor, 95 stores
Richmond Division, Ralph C. Ward, 82 stores
Sacramento Division, Eugene V Podoll, 92 stores
San Francisco Division, William D. Lowe, 211 stores
Southern California Division, Donald L. Gates, 242 stores
Washington, D.C. Division, Donald J. Smith, 152 stores

Fred E. MacRae, Group Vice President
Denver Division, Gene J. Lawann, 148 stores
Portland Division, John A. Caraleo, 95 stores
Salt Lake City Division, Donald R. Cannon, 61 stores
Seattle Division, Gerald V Outtrupht, 134 stores
Spokane Division, John R. Maxwell, 67 stores

William H. Maloney, Group vice President
Dallas Division, Carey A. Reid, 154 stores
El Paso Division, Donald J. Phillips, 56 stores
Houston Division, Dean M. Grant, 101 stores
Kansas City Division, Richard F. Wilson, 78 stores
Little Rock Division, Allen Frances, 64 stores
Oklahoma Division, Forrest Wookey, 121 stores

Canada

Robert H. Kinnie, President and Chief Executive Officer, Canada Safeway Limited
Calgary Division, Bruce S. Nicoll, 47 stores
Edmonton Division, Donald L. Olson, 53 stores
Regina Division, Richard H. Parkyn, 29 stores
Toronto Division, Norman D. Fingler, 29 stores
Vancouver Division, Robert F. Handy, 93 stores
Winnipeg Division, Vern E. Fahey, 51 stores

International

John S. Kimball, Group Vice President
Australia Division, J. W. R. Pratt, 119 stores
Germany Division, Manfred J. Fürek, 29 stores
United Kingdom Division, T. E. Spratt, 104 stores
Mexico, Casa Ley S.A. (joint venture), 15 stores
Saudi Arabia (management contract), 4 stores

NASA Photo

In the U.S., Safeway operates stores in 27 states and the District of Columbia. We are well represented in most of the fastest growing areas of the country.

Overseas retail divisions achieved record results in fiscal 1983. In Canada, earnings were relatively flat due to the sluggish economy and heightened competitive activity. Elsewhere, our joint venture in Mexico and management contracts in the Middle East continue to progress well, as do our association with a major trading group in Japan and export department sales in several countries.

For more than half a century, Canada Safeway Limited has been the leading food retailer in the western and central provinces. It acquired six former Dominion stores during 1983 and plans to open several "super warehouse" stores this year.

Safeway Food Stores Limited opened its 100th store last spring and ended the fiscal year with 104. Future expansion plans call for 40 more stores in England and Scotland during the next three years.

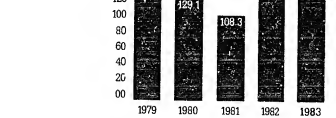
Safeway Supermarkt GmbH celebrated its 20th year of operation during 1983. Growth plans in West Germany were bolstered by the recent acquisition of six stores in the Hamburg and Hannover areas.

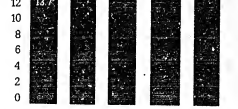
Australian Safeway Limited also reached the 20-year milestone during 1983. As of fiscal year-end, the company operated 119 stores in Victoria, New South Wales, Queensland and the Northern Territory.

Five-Year Summary

Earnings	1983	1982	1981	1980*	1979
Sales	$18,585,217	$17,632,821	$16,580,318	$15,102,673	$13,717,861
Percent of annual increase	5.4%	6.3%	9.8%	10.1%	9.3%
Cost of sales	14,249,843	13,628,052	12,945,923	11,816,733	10,793,570
Gross profit	4,335,374	4,004,769	3,634,395	3,285,940	2,924,291
Percent of sales	23.3%	22.7%	21.9%	21.8%	21.3%
Operating and administrative expenses	3,920,736	3,653,561	3,363,478	2,999,130	2,617,897
Percent of sales	21.1%	20.7%	20.3%	19.9%	19.1%
Operating profit	414,638	351,208	270,917	286,810	306,594
Interest expense	134,270	129,46[illegible]	120,393	99,614	91,276
Other income, net	(20,565)	(26,5[illegible]	(15,822)	(16,486)	(13,865)
Income taxes	117,630	88,[illegible]	58,062	74,544	81,456
Net income	$ 183,303	$ 159,[illegible]60	$ 108,284	$ 129,138	$ 147,727
Percent of sales	.99%	.[illegible]1%	.65%	.86%	1.08%
Percent of average stockholders' equity	14.50%	14.43%	10.16%	12.60%	15.57%
Per share	$ 3.26	$ 3.06	$ 2.07	$ 2.47	$ 2.83
Cash dividends per share	1.425	1.325	1.30	1.30	1.30
Average shares of common stock outstanding	56,163,014	52,261,216	52,231,834	52,231,834	52,227,570
Financial Statistics					
Working capital	$ 230,857	$ 218,124	$ 112,919	$ 114,185	$ 127,122
Current assets per dollar of current liabilities	1.15	1.16	1.08	1.10	1.12
Additions to property	541,238	511,917	518,330	493,005	435,928
Depreciation and amortization	264,553	242,371	226,001	204,469	180,898
Total assets	4,174,363	3,890,633	3,652,315	3,333,541	3,084,568
Long-term debt	1,187,669	1,256,186	1,137,616	1,051,229	955,656
Equity of common stockholders	1,390,354	1,137,096	1,075,098	1,056,687	994,426
Per share of common stock	23.66	21.74	20.59	20.21	19.04
Cash dividends on common stock	80,961	69,228	67,900	67,900	67,900
Other Statistics					
Employees at year-end	162,088	156,478	157,411	150,072	148,878
Stores opened during year	145	153	159	167	104
Stores closed during year	92	176	98	166	115
Total stores at year-end	2,507	2,454	2,477	2,416	2,425
Total store area at year-end (thousands sq. ft.)	69,818	66,816	65,483	62,069	59,470
Average annual sales per store	$ 7,395	$ 7,184	$ 6,682	$ 6,072	$ 5,554
Price range, New York Stock Exchange High–Low	30–21¼	25⅛–13¾	18⅞–12¼	18⅛–13	22–16⅞

Note: Dollars in thousands, except per share amounts
All share and per share amounts adjusted to reflect the 2-for-1 stock split in 1983.
*53 weeks





Results of Operations

Consolidated sales increased by 5.4 percent in 1983 to $18.59 billion, from $17.63 billion in 1982 and $16.58 billion in 1981. Sales increases have exceeded the inflation rate for food in the U.S. for all three years. Foreign sales increases, although strong, continued to be dampened on translation to the stronger U.S. dollar.

Gross profit as a percent of sales was 23.3 percent in 1983, 22.7 percent in 1982, and 21.9 percent in 1981. The improvement is mainly due to an emphasis on larger stores and a slight change in product mix. Application of the LIFO method of valuing certain inventories resulted in a $444,000 credit to cost of sales in 1983 compared to charges of $13.1 million in 1982 and $20.2 million in 1981.

Operating and administrative expenses increased to 21.1 percent of sales in 1983 from 20.7 percent in 1982 and 20.3 percent in 1981. Advertising and occupancy costs contributed principally to the increase.

In 1983, interest expense increased slightly to $134.3 million from $129.5 million in 1982 and $120.4 million in 1981 despite substantially lower short-term borrowings and interest rates. The increase was caused by a greater emphasis on mortgage rather than lease financing of new store construction.

Other income in 1982 included a $5.4 million pre-tax gain resulting from the closure of the Omaha Division.

The provision for income taxes as a percent of pre-tax income rose to 39.1 percent in 1983 compared with 35.7 percent in 1982 and 34.9 percent in 1981. The increase of 3.4 percent in 1983 is due primarily to a change in the U.S. tax law governing certain tax credits, which dropped to 8.6 percent of pre-tax income in 1983 compared to 10.2 percent and 10.5 percent in 1982 and 1981, respectively.

Net income increased 14.8 percent to $183.3 million in 1983 from $159.7 million in 1982 and $108.3 million in 1981. The 1983 increase reflects improved real sales, improvements in productivity, and administrative cost controls.

See Note K for further information on the effects of inflation and changing prices on operating results.

Liquidity

Consolidated working capital increased to $231 million in 1983 while the current ratio remained relatively unchanged at 1.15 as compared to 1.16 at year-end 1982 and 1.08 at year-end 1981. Had the company stated its inventories using the FIFO method, its current ratio would have been 1.35, 1.36 and 1.29, and working capital would have been $520 million, $508 million and $389 million at year-ends 1983, 1982 and 1981, respectively.

During the second quarter of 1983, the company issued [illegible]0,000 shares of common stock. The proceeds, which amounted to $146 million, were used to repay a portion of outstanding commercial paper borrowings as they became due.

Average commercial paper and bank borrowings outstanding decreased to $164 million in 1983, compared to $289 million in 1982 and $253 million in 1981. The average interest rates paid on consolidated short-term borrowings were 9.9 percent, 12.9 percent and 16.1 percent in 1983, 1982 and 1981, respectively.

Capital Resources

Capital expenditures rose to $541 million in 1983, from $512 million in 1982 and $518 million in 1981. Most of these expenditures were for new and remodeled stores. The company opened 145 new stores of which 70 were superstores exceeding 35,000 square feet and 20 were new Liquor Barns. The company closed 92 stores in 1983. In 1983, total retail store area increased 3 million square feet to 69.8 million from 66.8 million and 65.5 million at year-ends 1982 and 1981. The mix of stores and their average square footage at year-end 1983 were as follows:

	Number	Avg. Size Sq. Ft.
Conventional supermarkets	1,707	24,923
Superstores (over 35,000 sq. ft.)	595	41,052
Food Barns	96	24,021
Liquor Barns	90	19,144
Other specialty stores	19	18,474
Total stores and overall average	2,507	27,849

The company purchased fixtures and equipment amounting to $269 million in 1983, $231 million in 1982 and $223 million in 1981.

In 1984, the company plans to make capital expenditures of $639 million, including the acquisition, completed in January 1984, of 43 Weingarten stores operating in Texas and Louisiana. Total store openings for 1984 are projected to be 205.

The company obtained the majority of its capital financing from operations, mortgages, sale/leasebacks and Industrial Development Revenue Bonds (IDRB's). Financing from sources other than operations provided $207 million in 1983, $179 million in 1982 and $184 million in 1981. Due to changes in the laws governing the issuance of IDRB's, such financing will not be available in 1984. Mortgage financing is most likely to replace IDRB's as a source of capital financing.

Consolidated Statements of Income

For the 52 weeks ended December 31, 1983, January 1, 1983 and January 2, 1982
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

	1983	1982	1981
Sales	$18,585,217	$17,632,821	$16,580,318
Cost of sales	14,249,843	13,628,052	12,945,923
Gross profit	4,335,374	4,004,769	3,634,395
Operating and administrative expenses	3,920,736	3,653,561	3,363,478
Operating profit	414,638	351,208	270,917
Interest expense	134,270	129,484	120,393
Other income, net	(20,565)	(26,536)	(15,822)
Income before provision for income taxes	300,933	248,260	166,346
Provision for income taxes	117,630	88,600	58,062
Net income	$ 183,303	$ 159,660	$ 108,284
Net income per share	$ 3.26	$ 3.06	$ 2.07

See accompanying notes to consolidated financial statements

For the 52 weeks ended December 31, 1983, January 1, 1983 and January 2, 1982
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands)

Working capital provided:	1983	1982	1981
Net income	$183,303	$159,660	$108,284
Add charges to income not affecting working capital:			
Depreciation and amortization	264,553	242,371	226,001
Accrued claims and other liabilities	2,542	3,866	15,702
Total working capital provided from operations	450,398	405,897	349,987
Additions to long-term debt	205,935	228,293	168,009
Retirements or sales of property	90,296	153,492	156,227
Exchange rate effects on property and long-term debt	19,732	29,697	33,966
Proceeds from issuance of common stock	168,962	1,193	—
Total working capital provided	935,323	818,572	708,189
Working capital used:			
Additions to property	541,238	511,917	518,330
Payments on long-term debt	266,876	94,618	79,033
Cash dividends on common stock	80,961	69,228	67,900
Cumulative translation adjustments	18,045	29,628	20,973
Other, net	15,470	7,976	23,219
Total working capital used	922,590	713,367	709,455
Net increase (decrease) in working capital	$ 12,733	$105,205	$ (1,266)
Increases (decreases) in components of working capital:			
Cash and short-term investments	$ 11,766	$ 19,733	$ (71,683)
Receivables	18,537	925	15,547
Merchandise inventories	95,264	117,554	206,969
Prepaid expenses and other current assets	(13,966)	13,658	45,175
Notes and obligations payable	26,717	50,561	(30,584)
Payables and accruals	(93,761)	(107,881)	(174,886)
Income taxes payable	(31,824)	10,655	8,196
Net increase (decrease) in working capital	$ 12,733	$105,205	$ (1,266)

See accompanying notes to consolidated financial statements

Consolidated Balance Sheets

As of December 31, 1983, January 1, 1983 and January 2, 1982
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

Assets	1983	1982	1981
Current assets:			
Cash and short-term investments	$ 75,574	$ 63,908	$ 44,075
Receivables	91,642	73,105	72,180
Merchandise inventories:			
FIFO cost	1,722,260	1,627,440	1,496,775
Less LIFO reductions	289,006	289,450	276,339
	1,433,254	1,337,990	1,220,436
Prepaid expenses and other current assets	128,676	142,642	129,984
Total current assets	1,729,146	1,617,545	1,466,675
Property:			
Land	210,427	174,623	159,113
Buildings	305,006	279,736	232,139
Leasehold improvements	459,711	403,413	375,407
Fixtures and equipment	1,769,136	1,610,584	1,497,632
Transport equipment	179,576	165,761	155,189
Property under capital leases	1,155,493	1,140,436	1,187,204
	4,093,349	3,774,553	3,606,684
Less accumulated depreciation and amortization	1,731,138	1,572,602	1,477,092
Total property net	2,362,211	2,201,951	2,129,592
Excess of cost over net assets acquired	16,557	14,301	16,234
Other assets	66,449	56,836	40,814
Total assets	$4,174,363	$3,890,633	$3,652,315

See accompanying notes to consolidated financial statements

Liabilities and Stockholders' Equity	1983	1982	1981
Current liabilities:			
Notes payable	$ 50,156	$ 88,028	$ 141,208
Current obligations under capital leases	45,841	45,564	46,384
Current maturities of notes and debentures	24,723	13,845	10,406
Accounts payable	1,017,094	948,832	868,143
Accrued salaries and wages	163,021	149,492	136,628
Other accrued expenses	154,373	142,603	128,075
Income taxes payable	43,081	11,257	21,912
Total current liabilities	1,498,289	1,399,421	1,352,756
Long-term debt:			
Obligations under capital leases	765,307	767,309	809,393
Notes and debentures	422,362	488,877	328,223
Total long-term debt	1,187,669	1,256,186	1,137,616
Accrued claims and other liabilities	98,051	97,931	86,845
Total liabilities	2,784,009	2,753,538	2,577,217
Stockholders' equity:			
Common stock—$1.66⅔ par value Authorized 75,000,000 shares Outstanding 58,759,976; 26,149,743 and 26,115,017 shares	97,933	43,583	43,527
Additional paid-in capital	222,851	64,573	63,436
Cumulative translation adjustments	(114,087)	(96,042)	(66,414)
Retained earnings	1,183,657	1,124,981	1,034,549
Total stockholders' equity	1,390,354	1,137,095	1,075,098
Total liabilities and stockholders' equity	$4,174,363	$3,890,633	$3,652,315

Consolidated Statements of Stockholders' Equity

For the 52 weeks ended December 31, 1983, January 1, 1983 and January 2, 1982
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

	Common Stock			Additional	Cumulative	
	Shares Outstanding	Shares in Treasury	Amount Outstanding	Paid-in Capital	Translation Adjustments	Retained Earnings
Balance, January 3, 1981	26,115,917	13,601	$43,527	$ 63,436	$ (45,441)	$ 994,165
Net income						108,284
Cash dividends ($1.30 per share)						(67,900)
Translation adjustments					(20,973)	
Balance, January 2, 1982	26,115,917	13,601	43,527	63,436	(66,414)	1,034,549
Net income						159,660
Cash dividends ($1.325 per share)						(69,228)
Translation adjustments					(29,628)	
Stock issued under stock option plans	33,826		56	1,137		
Balance, January 1, 1983	26,149,743	13,601	43,583	64,573	(96,042)	1,124,981
Net income						183,303
Cash dividends ($1.425 per share)						(80,961)
Translation adjustments					(18,045)	
Stock issued under stock option plans (pre-split)	50,264		84	1,841		
Stock issued in 2-for-1 split	26,200,007	13,601	43,666			(43,666)
Stock issued under:						
Public offering	5,500,000		9,167	136,729		
Dividend reinvestment plan	564,019		940	13,403		
Stock option plans	150,310		250	2,470		
Tax Reduction Act Stock Ownership Plan (TRASOP)	145,633		243	3,835		
Balance, December 31, 1983	58,759,976	27,202	$97,933	$222,851	$(114,087)	$1,183,657

See accompanying notes to consolidated financial statements

Fiscal Year:
The fiscal year for the company and its Canadian subsidiaries ends on the Saturday nearest December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30, to allow sufficient time to gather information from overseas for U.S. reporting purposes.

Basis of Consolidation:
Consolidated financial statements include the accounts of all subsidiaries except a minor overseas subsidiary which is included in investments at the amount of equity in net book value. All intercompany transactions have been eliminated in consolidation. Investments in affiliates which are not majority owned are included in the financial statements at the company's equity therein.

Translation of Foreign Currencies:
Assets and liabilities of the company's foreign subsidiaries are translated into U.S. dollars at fiscal year-end rates of exchange, and income and expenses are translated at average rates during the year.

Translation adjustments are accumulated in a separate component of stockholders' equity—Cumulative Translation Adjustments. Gains or losses from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in income.

Aggregate net losses on foreign currency transactions included in net income were $2,502,000 in 1983, $2,399,000 in 1982 and $239,000 in 1981.

Provision For Income Taxes:
The company provides for deferred income tax charges and credits resulting from timing differences in the recognition of income and expenses for financial reporting and income tax purposes. Investment tax credits, excluding credits acquired from other companies through tax leases, reduce the provision for income taxes in the year in which the credits arise.

The cost of tax benefits acquired from other companies through tax leases is capitalized as an investment and reduced as the investment is recovered by realized tax savings. Deferred taxes are provided for differences between taxable income and financial reporting income that arise from the transaction.

Merchandise Inventories:
Approximately 60 percent of consolidated merchandise inventories are valued on a last-in, first-out (LIFO) basis. Inventories not valued on a LIFO basis are valued at the lower of cost on a first-in, first-out (FIFO) basis or replacement market. Inventories on a FIFO basis include meat and produce in the U.S. and all Canadian and overseas inventories.

In 1983, application of the LIFO method resulted in a $444,000 credit to cost of sales and, in 1982 and 1981, a charge of $13,111,000 and $20,246,000, respectively. In all three years, fourth-quarter adjustments reduced the LIFO charges accumulated through the first 36 weeks of the year to reflect the actual impact of the LIFO method for the full year as determined at year-end. The adjustments increased fourth-quarter pre-tax earnings by $23,838,000 in 1983, $12,603,000 in 1982 and $12,154,000 in 1981.

Excess of Cost Over Net Assets Acquired:
The excess cost of investment in subsidiaries over net assets at the date of acquisition is amortized and charged against income on a straight-line basis over 20 years.

Property and Depreciation:
Property is stated at historical cost. Interest cost incurred in connection with construction in progress is capitalized. Depreciation is computed for financial reporting purposes on the straight-line method. The following are the principal rates of depreciation used during the year:

Stores and other buildings	2½ to 5%
Fixtures and equipment	5 to 20%
Transport equipment	12½ to 16⅔%

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Buildings and major improvements are amortized over the shorter of the remaining period of the lease or the estimated useful life of the asset.

Property under capital leases is amortized over the terms of the leases. Accumulated amortization of property under capital leases was $502,917,000, $477,131,000 and $476,455,000 at year-ends 1983, 1982 and 1981, respectively.

Depreciation and amortization expense for property of $253,374,000 in 1983, $241,264,000 in 1982 and $225,196,000 in 1981 included amortization of property under capital leases of $55,188,000, $54,447,000 and $55,424,000, respectively.

Stock Options:
Proceeds from the sale of common stock issued under options are added to common stock at par value and the excess is added to additional paid-in capital. In addition, any tax benefit to the company realized as a result of stock option exercises is added to additional paid-in capital.

Pre-Opening Costs:
Pre-opening costs are expensed as incurred.

Self-Insurance:
The company is self-insured for workers compensation, automobile and general liability costs. The estimated self-insurance liability is based upon a review by the company and an independent insurance broker of claims filed and claims incurred but not yet filed.

Net Income Per Share:
Net income per share is determined by dividing consolidated net income by the average number of common shares outstanding during the year.

Stock Split:
Effective March 31, 1983, the company declared a 2-for-1 split of common shares accomplished by a 100 percent stock distribution. All per share amounts in the accompanying consolidated financial statements have been adjusted to reflect the stock split.

The company and its subsidiaries have contributory, trusteed retirement plans for eligible employees not covered by other plans to which the companies contribute. The company also has a supplemental pension plan for senior executives. The aggregate charges to income for all such plans were $6,575,000 in 1983, $17,390,000 in 1982 and $13,815,000 in 1981. In 1983, the company adopted, for the U.S. retirement plan, the "pro-rata unit credit method" of determining pension benefit obligations for funding and accounting purposes. The new method was adopted over the "aggregate method" used in prior years, because it determines an annual pension expense which more appropriately relates the costs of retirement benefits to the year in which such benefits are earned. The new method reduced the company's 1983 annual contribution and expense for the U.S. retirement plan to zero, whereas the estimated contribution and expense under the prior method would have been an additional $5.6 million.

The actuarial present values of accumulated plan benefits for the U.S. retirement plan as of December 31, 1982, 1981 and 1980 were $179,000,000, $169,382,000 and $157,289,000 as to vested benefits and $4,677,000, $4,397,000 and $2,499,000 as to non-vested benefits, respectively. The net assets available for benefits at those dates amounted to $410,822,000, $322,003,000 and $311,483,000, respectively. The assumed rate of return for determining the actuarial present value of accumulated plan benefits was 8 percent.

The company's foreign retirement plans and supplemental pension plan for senior executives are not required to report to U.S. governmental agencies pursuant to the Employee Retirement Income Security Act. Accordingly the actuarial present value of accumulated plan benefits has not been determined for those plans. The net assets of foreign plans are sufficient to fund vested benefits. The company has purchased cost-recovery life insurance to fund its obligations under the supplemental pension plan for senior executives.

Contributions charged to income for various pension plans under union contracts were $121,980,000 in 1983, $115,991,000 in 1982 and $106,394,000 in 1981. Under U.S. legislation regarding multi-employer pension plans a company is required to continue funding its proportional share of a plan's unfunded vested benefits in the event of withdrawal (as defined by the legislation) from a plan or plan termination. The company participates in approximately 80 multi-employer pension plans and the potential obligation as a participant in these plans may be significant. However, the information required to determine the total amount of this contingent obligation, as well as the total amount of accumulated benefits and net assets of such plans, is not readily available.

Contributions charged to income for the company's U.S. and Canadian employee profit-sharing plans were $16,312,000 in 1983, $14,131,000 in 1982 and $8,747,000 in 1981.

The company provided $10,812,000 in 1983, $5,149,000 in 1982 and $2,073,000 in 1981 for contributions to its U.S. employee stock ownership plans which were made possible by additional tax credits authorized by tax legislation.

Interest expense consisted of the following (in thousands):

	1983	1982	1981
Obligations under capital leases	$ 74,031	$ 71,238	$ 73,045
Notes and debentures	48,201	27,176	14,657
Commercial paper and bank borrowings	16,329	37,948	40,982
Other	3,017	3,265	2,707
	141,578	139,627	131,391
Less capitalized interest	7,308	10,143	10,998
Total	$134,270	$129,484	$120,393

The components of the provision for income taxes included in the consolidated statements of income were as follows (in thousands):

	1983	1982	1981
Current			
Federal	$23,539	$13,609	$(10,866)
State	12,217	9,536	4,400
Foreign	61,630	57,974	68,731
	97,436	81,119	62,245
Deferred			
Federal	18,644	8,655	431
State	662	(1,210)	48
Foreign	938	36	(4,662)
	20,194	7,481	(4,193)
	$117,630	$88,600	$ 58,052

Non-current deferred tax charges (credits) of $4,795,000, $7,220,000 and ($5,102,000) are included in Other Assets and Accrued Claims and Other Liabilities at year-ends 1983, 1982 and 1981, respectively. Current deferred tax charges of $22,471,000, $29,086,000 and $18,942,000 were included in Prepaid Expenses and Other Current Assets in those years.

The following represent the tax effects of the principal items for which treatment for financial statement and income tax purposes differ, giving rise to timing differences (in thousands):

	1983	1982	1981
Accelerated depreciation	$27,151	$ 6,139	$12,717
Tax benefits acquired through tax leases	12,282	21,610	—
Accrued claims	(2,270)	(8,454)	(10,264)
Capitalized leases	(4,213)	(2,129)	(4,935)
Compensation plans	(2,328)	(3,973)	(1,079)
Repairs expense	(5,168)	(2,645)	904
Other, net	(5,260)	(3,067)	(1,476)
	$20,194	$ 7,481	$ (4,183)

In 1983, 1982 and 1981, distributions were made to the parent company from current earnings of certain foreign subsidiaries and provision has been made for any income taxes payable on such distributions. No provision has been made for income taxes which might be payable if earnings not yet distributed through year-end 1983 were distributed to the parent company, since it is the intention of management to make no such distributions. The undistributed earnings on which the parent company has not provided for income taxes were $749,445,000, $662,770,000 and $606,741,000 at year-ends 1983, 1982 and 1981, respectively.

In 1982, the company purchased $13,000,000 in investment and energy tax credits and $16,347,000 in other tax deductions through transactions structured as leases for tax purposes.

U.S. and Canadian corporation income tax returns for all years prior to 1980 and 1977, respectively, have been reviewed by taxing jurisdictions. Substantially all deductions which have been or may ultimately be disallowed will be carried forward as timing differences and claimed as deductions in future years, thereby having no significant effect on reported earnings.

The company's effective income tax rate as a percentage of pre-tax income varies from the U.S. statutory federal income tax rate as shown below:

	1983	1982	1981
Statutory federal income tax rate	46.0%	46.0%	46.0%
U.S. investment tax credit	(5.1)	(10.2)	(10.5)
Payroll based tax credit employee stock ownership plan	(3.5)	—	—
Difference between statutory rate and foreign effective rates	(2.2)	(2.2)	(1.7)
State taxes on income, less federal benefit	2.3	1.8	1.4
Other, net	1.6	0.3	(0.3)
Effective tax rate	39.1%	35.7%	34.9%

The 1983 U.S. investment tax credit amounted to $15,348,000 net of a $4,559,000 reduction required for the related tax basis adjustment. U.S. investment tax credits in 1982 and 1981 were $25,439,000 and $17,426,000, respectively, including investment based tax credits for an employee stock ownership plan.

At year-end 1983, the company had lines of credit amounting to $493 million, of which $435 million were domestic credit lines. Compensating balances in support of the lines of credit were not material and there were no legal restrictions on withdrawals.

Domestic credit lines are composed of $295 million in revolving credit agreements, and $230 million in lines with "evergreen" features which automatically extend the expiration of the lines to be continually 13 months in the future. The amount outstanding under domestic credit lines at year-end 1983 was $15 million. Commercial paper notes supported by domestic credit lines amounted to $65 million at year-end 1983. Interest rates stipulated in the domestic credit lines are generally the prime lending rate or, optionally for Eurodollar borrowings, the London interbank rate plus ½ percent. The company pays annual commitment fees which approximate ⅜ percent of the unused portion of its domestic credit lines.

Borrowings expected to be continually refinanced for a period beyond one year amounted to $49 million and were classified as long-term debt at year-end 1983.

The company and its subsidiaries occupy primarily leased premises, which were covered by 3,456 leases at year-end 1983 including 1,519 which are capitalized for financial reporting purposes.

Most leases have renewal options with terms and conditions similar to the original lease. Of all the leases, 1,505 can be cancelled by the company by offer to purchase the properties at original cost less amortization.

The following schedule shows future minimum rental payments required under capital leases and under operating leases that have noncancellable lease terms in excess of one year as of year-end 1983 (in thousands):

	Capital Leases	Operating Leases
1984	$ 129,455	$ 111,665
1985	117,232	108,027
1986	114,054	104,719
1987	111,037	101,564
1988	106,324	94,790
Later years	1,107,855	1,145,612
Total minimum lease payments	1,676,957	$1,666,377
Less executory costs	19,616	
Net minimum lease payments	1,657,341	
Less amount representing interest	846,193	
Present value of net minimum lease payments	311,148	
Less current obligations	45,841	
Long-term obligations	$ 765,307	

In addition to minimum lease payments, contingent rentals may be paid under certain store leases on the basis of the stores' sales in excess of stipulated amounts. Contingent rentals on capital leases amounted to $10,367,000 in 1983, $10,373,000 in 1982 and $10,298,000 in 1981.

The following schedule shows the composition of total rental expense for all operating leases (in thousands):

	1983	1982	1981
Property leases:			
Minimum rentals	$156,247	$142,645	$121,776
Contingent rentals	10,296	9,815	8,899
Less rentals from subleases	(11,589)	(10,814)	(7,710)
	154,954	141,646	122,965
Equipment leases	26,071	26,669	21,781
	$181,025	$168,315	$144,746

Notes and debentures at year-end 1983 consisted of (in thousands):

	Due After One Year	Current Maturities
Mortgage notes payable, secured	$240,979	$22,271
7.40% sinking fund debentures, unsecured, due in installments through 1997	37,780	—
Commercial paper and bank borrowings	49,000	—
Industrial development revenue bonds	33,132	—
Other notes payable, unsecured	61,471	2,452
	$422,362	$24,723

The mortgage notes payable are secured by properties which are included in the balance sheet at their net book value of $228,638,000. Mortgage notes have terms ranging from 2 to 24 years and bear interest at 5 to 12 percent.

The 7.40 percent debentures require annual sinking fund payments of $3,250,000. The company has repurchased debentures which cover $7,720,000 of future sinking fund requirements remaining at year-end 1983. Under the agreement covering the 7.40 percent debentures, $820,019,000 of the retained earnings as of year-end 1983 were free of restrictions for dividend payments and acquisitions of common stock. Restrictions include a limitation on the creation of additional funded debt.

As of year-end 1983 the company had completed industrial development revenue bond financings of $76,325,000, of which amount $33,132,000 had been released to the company. The bonds have terms ranging from 10 to 25 years and bear interest at 9.5 to 14 percent.

On December 30, 1982, the company filed a Registration Statement with the Securities and Exchange Commission for the proposed offering of debt securities up to $200 million. To date, no debt securities have been offered under this registration.

Aggregate annual maturities of notes and debentures for the four years beyond 1984 are (in thousands):

1985	$34,412
1986	$39,742
1987	$41,715
1988	$33,909

The company has commitments under contracts for the purchase of property and equipment and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the financial statements. Those unrecorded commitments amounted to approximately $98 million at year-end 1983.

There are pending against the company various claims and lawsuits arising in the normal course of the company's business, including, as of March 2, 1984, suits charging violations of certain Civil Rights laws, some of which purport to be class actions, and some of which seek damages in very large amounts, as well as other relief which, if granted, would require very large expenditures.

Although the amount of liability at year-end 1983 with respect to all of the above matters cannot be ascertained, management is of the opinion that any resulting liability will not materially affect the company's consolidated income or financial position.

Prior annual reports noted the pendency of 18 suits brought against the company and others by various livestock producers and feeders alleging violations of the antitrust laws in the purchase and sale of meat (and of one similar suit in which the company was named as a co-conspirator). Plaintiffs' damage claims in all of these cases have been dismissed and all appeals challenging such dismissals have been exhausted.

The company has qualified "incentive" and non-qualified stock option plans, which authorize issuance of 3,000,000 shares of the company's common stock.

At year-end 1983, there were 968,540 unoptioned shares available for granting, and 570,700 of the outstanding unexercised options were exercisable. Outstanding stock options expire on various dates during the next ten years. The weighted average purchase price per share under outstanding options was $21.28 at year-end 1983.

Stock appreciation rights (SAR's) are granted in tandem with certain stock options. Upon exercise of a stock appreciation right, the holder surrenders the related option and receives the excess of the then fair market value of the option shares over the option price in cash.

	Shares	SAR's	Option Price
Outstanding year-end 1980	958,700		$20.07–23.94
Replaced, 1981	(958,100)		20.07–23.94
Granted, 1981	1,207,300		15.81
Cancelled, 1981	(18,200)		15.81–23.07
Outstanding, year-end 1981	1,189,700		15.81–23.94
Granted, 1982	298,600	546,400	14.31–15.81
Exercised, 1982	(67,652)		15.81
Cancelled, 1982	(32,120)		14.31–23.94
Outstanding, year-end 1982	1,388,528	546,400	14.31–15.81
Granted, 1983	838,050	239,400	24.56–27.56
Exercised, 1983	(250,838)	(235,090)	14.31–15.81
Cancelled, 1983	(262,770)	(1,710)	14.31–15.81
Outstanding, year-end 1983	1,712,970	549,000	$14.31–27.56

The company recognized compensation expense of $3,468,000 in 1983 and $1,903,000 in 1982 relating to the granting of stock appreciation rights.

The supplementary information represents estimates of the effects of inflation on the company's financial statements using current cost/constant dollar accounting.

Current cost accounting attempts to measure the effect of changes in specific prices by adjusting historical costs to amounts which approximate the current costs to the company of producing or replacing inventories and property.

Constant dollar accounting attempts to eliminate the effect of general inflation by using the Consumer Price Index — Urban (CPI-U) to restate historical dollar property and inventories into dollars having comparable purchasing power.

The computed net income for 1983 under current cost accounting includes adjustments to merchandise costs and depreciation and amortization expense. The effects of inflation on merchandise costs have already been recognized in the historical financial statements to the extent that the LIFO method of accounting is used for approximately 60 percent of merchandise inventories.

The provision for income taxes does not reflect the current cost adjustments to merchandise costs or depreciation and amortization expense.

The "gain from the change in purchasing power of net monetary liabilities" represents the gain in general purchasing power, as measured by general inflation rates, realized by the company as monetary liabilities are paid with currency of decreased purchasing power.

At December 31, 1983 the current costs of merchandise inventories and property increased by $266 million, whereas those assets increased by only $189 million as a result of general inflation. Thus, the year's increase in inventories and property due to current costs exceeded the increase in inflation by $77 million, indicating a greater increase in the company's specific price indices than the rate of general inflation for those items. At year-end 1983, the current cost of merchandise inventories was $1,722 million and the current cost of net property was $3,549 million.

Current cost accounting methods involve the use of assumptions, estimates and subjective judgments, and the results should not be viewed as precise measurements of the effects of inflation.

Supplementary Financial Data Adjusted for the Effects of Changing Prices (in millions)

	1983	
	As Reported in the Statement of Income	Adjusted for Changes in Specific Prices (Current Costs)
Sales	$18,585	$18,585
Cost of sales	14,250	14,322
Other expenses, net	4,034	4,125
Income before provision for income taxes	301	138
Provision for income taxes	118	118
Net income	$ 183	$ 20
Gain from the change in purchasing power of net monetary liabilities		89
Net income including gain in purchasing power		$ 109
Depreciation and amortization expense*	$ 263	$ 393

*Allocated between cost of sales and other expenses in the determination of net income or loss

Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices
(In Dollars of 1983 Average Purchasing Power, Using CPI-U)

	1983	1982	1981	1980*	1979
Sales	$18,585	$18,200	$18,163	$18,260	$18,829
Net income (loss)	20	22	(46)	(56)	(10)
Net income (loss) per share of common stock	36	.41	(.89)	(1.07)	(.20)
Gain from the change in purchasing power of net monetary liabilities	89	86	199	259	279
Net income including gain in purchasing power	109	108	153	203	269
Increase, in the current costs of merchandise inventories and property over (under) the increase due to general inflation	77	(150)	(259)	(20)	(46)
Net assets at year-end	2,820	2,558	2,698	2,874	2,768
Cash dividends per share of common stock	1.425	1.37	1.42	1.54	1.79
Market price per share of common stock at year-end	25.75	23.34	14.05	18.04	22.38
Average Consumer Price Index (CPI-U)	298.4	289.1	272.4	246.8	217.4

*Estimates

Note: Dollars are in millions except per share figures

United States*

	1983	1982	1981
Sales	$14,056,832	$13,252,699	$12,491,852
Gross profit	3,400,517	3,128,112	2,815,057
Operating and administrative expenses	3,144,434	2,921,519	2,688,571
Operating profit	256,083	206,593	126,486
Income before provision for income taxes	157,466	121,020	21,838
Provision for income taxes	58,658	32,188	(6,007)
Net income	98,808	88,832	27,845
Net working capital including merchandise inventories at FIFO cost	384,897	390,689	277,160
Less LIFO reductions	289,006	289,450	276,339
Net working capital	95,891	101,239	821
Total assets	3,075,432	2,843,403	2,675,569
N assets	845,623	625,586	532,185
Cumulative translation adjustments	1,339	(116)	

Canada

	1983	1982	1981
Sales	$ 2,692,836	$ 2,569,717	$ 2,404,972
Gross profit	590,412	549,112	504,543
Operating and administrative expenses	491,511	452,186	410,701
Operating profit	98,901	96,926	93,842
Income before provision for income taxes	94,971	93,861	103,256
Provision for income taxes	38,949	44,448	47,011
Net income	56,022	49,413	56,245
Net working capital	175,527	136,959	150,681
Total assets	654,494	623,596	578,281
Net assets	426,178	397,602	430,063
Cumulative translation adjustments	(62,167)	(54,301)	(40,362)

Other Foreign

	1983	1982	1981
Sales	$ 1,845,549	$ 1,810,405	$ 1,683,494
Gross profit	344,445	327,545	314,795
Operating and administrative expenses	284,791	279,856	264,206
Operating profit	59,654	47,689	50,589
Income before provision for income taxes	48,496	33,379	41,252
Provision for income taxes	20,023	11,964	17,058
Net income	28,473	21,415	24,194
Net working capital (deficit)	(40,561)	(20,074)	(38,583)
Total assets	444,437	423,634	398,465
Net assets	118,553	113,907	112,850
Cumulative translation adjustments	(53,259)	(41,625)	(26,052)

*Reflects the LIFO method of valuing certain inventories

(dollars in thousands, except per share amounts)

	First	Second	Third	Last
1983	12 Weeks	12 Weeks	12 Weeks	16 Weeks*
Sales	$4,219,429	$4,287,238	$4,300,321	$5,778,429
Gross profit	955,030	991,805	999,390	1,389,149
Net income	23,683	37,121	47,122	75,177
Net income per share	.46	.68	.82	1.30
Cash dividends per share	.35	.35	.35	.375
Market price range of common stock:	25⅞–21¼	30–24½	27⅜–23¾	28⅞–24¼
1982				
Sales	$3,983,793	$4,046,193	$4,093,348	$5,510,487
Gross profit	878,993	912,313	934,135	1,279,328
Net income	16,029	42,115	39,117	62,399
Net income per share	.31	.80	.75	1.20
Cash dividends per share	.325	.325	.325	.35
Market price range of common stock:	14⅞–13⅛	15⅛–13¼	19⅜–14⅛	25⅛–18⅛
1981				
Sales	$3,589,307	$3,781,112	$3,943,663	$5,266,236
Gross profit	759,964	819,667	851,143	1,173,621
Net income	15,272	26,197	15,483	47,332
Net income per share	.37	.50	.30	.90
Cash dividends per share	.325	.325	.325	.325
Market price range of common stock:	18⅞–14¾	18½–16⅛	16¾–13	14–12¼

Note: Dividends are for calendar quarters
*See Note A—Merchandise Inventories

Fourth and Jackson Streets, Oakland, California 94660
(415) 891-3000

The Crocker National Bank, San Francisco, California

A facsimile of Safeway's 1983 10-K Report filed with the Securities and Exchange Commission may be obtained by writing the Controller at our executive offices.

Peat, Marwick, Mitchell & Co.

The 1984 Annual Meeting of Stockholders will be held on May 15, 1984. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed April 2, 1984. This Annual Report does not constitute part of the proxy soliciting material.

The consolidated financial statements of Safeway Stores, Incorporated and its subsidiaries have been prepared in accordance with generally accepted accounting principles and necessarily include amounts that are based on management's best estimates and judgments. Management is responsible for the integrity and objectivity of the data in these statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

To fulfill its responsibilities, management has developed and maintained a strong system of internal accounting controls. There are inherent limitations in any control system in that the cost of maintaining a control should not exceed the benefits to be derived. However, management believes the controls in use are sufficient to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements. The controls are supported by careful selection and training of qualified personnel, by the appropriate division of responsibilities, by communication of written policies and procedures throughout the company, and by an extensive program of internal audits.

Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report follows the consolidated financial statements, are engaged to provide an independent opinion regarding the fair presentation in the financial statements of the company's financial condition and operating results. They obtain an understanding of the company's systems and procedures and perform tests of transactions and other procedures sufficient to provide them reasonable assurance that the financial statements are neither misleading nor contain material errors.

The Board of Directors, through its Audit Committee composed of outside directors, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements. The board, on the recommendation of the Audit Committee and in accordance with stockholder approval, selects and engages the independent public accountants. The Audit Committee meets with the independent accountants to review the scope of the annual audit and any recommendations they have for improvements in the company's internal accounting controls. To assure independence, the independent accountants have free access to the Audit Committee and may confer with them without management representatives present.

To the Board of Directors and Stockholders
Safeway Stores, Incorporated

We have examined the consolidated balance sheets of Safeway Stores, Incorporated and subsidiaries as of December 31, 1983, January 1, 1983 and January 2, 1982 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at December 31, 1983, January 1, 1983 and January 2, 1982 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Oakland, California
March 2, 1984

New Directors

James R. Harvey, 49, chairman, president and chief executive officer of Transamerica Corporation, the diversified financial services-based company. Mr. Harvey was elected a member of Safeway's board in February 1982.

Samuel H. Armacost, 45, president and chief executive officer of BankAmerica Corporation and of its principal subsidiary, Bank of America NT & SA, the world's largest bank. Mr. Armacost became a Safeway director in December 1983.

Steven Mullet, 56, president of The Johns Hopkins University, one of the country's most prestigious institutions of higher education. Dr. Muller, who until recently served as president of the university's hospital as well, also joined the board in December.

Peter C. Bawden, 55, chairman of the Bawden Group, a worldwide contract drilling firm and, through its affiliates, an oil and gas producer. A prominent Canadian who served for seven years in the House of Commons, Mr. Bawden became Safeway's newest director in February 1984.

To further strengthen the Safeway team, during the past two years the company has added to its board of directors four individuals with exceptional credentials and outstanding performance records. We look forward to their active participation and wise counsel in our continuing quest for excellence.

Anthony G. Anselmo
Retired Chairman and Chief Executive Officer
Canada Safeway Limited

Samuel H. Armacost
President and Chief Executive Officer
BankAmerica Corporation

Peter C. Bawden
Chairman of the Board
Peter Bawden Drilling Ltd.
(Oil and Gas Contract Drilling and Production)

John F. Bookout
President and Chief Executive Officer
Shell Oil Company

Percy Chubb, III
Executive Vice President
The Chubb Corporation
(Property and Life Insurance)

James R. Harvey
Chairman, President and Chief Executive Officer
Transamerica Corporation
(Insurance, Financial Services, Transportation, Manufacturing)

Edward N. Henney
Executive Vice President

Mary Gardiner Jones
President
Consumer Interest Research Institute

Marjorie S. Kinney
Senior Vice President
Beverly Hills Savings

Roger D. Lapham, Jr.
Chairman and Managing Director
RAMA Corporation Ltd.
(Insurance Investment Company)

Dale L. Lynch
Retired President and Chief Operating Officer

Merrill L. Magowan
President
Magowan Investment Company
(Investment Advisor)

Peter A. Magowan
Chairman of the Board and Chief Executive Officer

W. S. Mitchell
Chairman of the Executive Committee

Dr. Steven Muller
President
The Johns Hopkins University

James A. Rowland
President and Chief Operating Officer

Harry D. Sunderland
Executive Vice President

William H. Webster
President
Webster Feed Lots
Webster Land and Cattle Company

Preston Wilbur, Jr.
Executive Vice President
Wilbur Ellis Company
(Importing and Exporting)

Canada Safeway Limited

Robert H. Kinnie
President and Chief Executive Officer

Vern E. Fahey
Vice President and Retail Division Manager

Norman D. Fingler
Vice President and Retail Division Manager

Robert F. Hendy
Vice President and Retail Division Manager

Bruce S. Nicoll
Vice President and Retail Division Manager

Donald L. Olson
Vice President and Retail Division Manager

Richard H. Parkyn
Vice President and Retail Division Manager

Safeway Food Stores Limited
(United Kingdom)

T. E. Syatt
Chairman, Managing Director and Retail Division Manager

Australian Safeway Limited
(Australia)

J. W. R. Fry
Chairman, Managing Director and Retail Division Manager

"Safeway" Supermarkt GmbH
(West Germany)

Manfred J. Filzek
Geschaeftsfuehrer and Retail Division Manager

Johs. Esmarch's EFTF. A/S
(Denmark)

Niels Norregaard
General Manager

Office of the Chairman

Peter A. Magowan
Chairman and
Chief Executive Officer

James A. Rowland
President and
Chief Operating Officer

Edward N. Henney
Executive Vice President
Supply Operations

E. Richard Jones
Executive Vice President
Information Services &
Planning

Harry D. Sunderland
Executive Vice President
Chief Financial Officer

During 1983, we established an Office of the Chairman comprising five members: the chairman of the board, the president, and three recently elected executive vice presidents. We believe this change, and an associated realignment of corporate staff functions, will strengthen our senior management team and improve the quality of services provided to our retail operations.

Peter A. Magowan
Chairman and
Chief Executive Officer

James A. Rowland
President and
Chief Operating Officer

Edward N. Henney
Executive Vice President
Supply Operations

E. Richard Jones
Executive Vice President
Information Services &
Planning

Harry D. Sunderland
Executive Vice President
Chief Financial Officer

John Bell
Group Vice President

John S. Kimball
Group Vice President

Fred sl. MacRae
Group Vice President

William H. Maloney
Group Vice President

Robert H. Kinzie
Vice President
President and
Chief Executive Officer
Canada Safeway Limited

Robert E. Bradford
Senior Vice President
Public Affairs

F. J. Dale
Senior Vice President
Controller

Roderick W. Davis
Senior Vice President
Management Information
Systems

Philip G. Horton
Senior Vice President
Real Estate, Engineering &
Distribution

Nelia V. Lawson
Senior Vice President
Corporate Strategic Systems

John L. Morris
Senior Vice President
Corporate Economist

John H. Priester
Senior Vice President–
Marketing

John L. Repass
Senior Vice President–
Human Resources

Bernat Rosner
Senior Vice President–Law
Secretary and General Counsel

Patrick S. Totman
Senior Vice President–Finance

Vice Presidents-Retail

Burton R. Bolesworth
Donald R. Cannon
John A. Cartales
Gerald V. Curtright
Carey A. Ford
Allen Francis
Dean M. Gantt
Donald L. Gates
Gene J. Lawson
William D. Lowe
John R. Maxwell
Donald J. Phillips
Eugene V. Podoll
Donald J. Smith
Robert R. Taylor
Ralph C. Ward
Richard F. Wilson
Forrest Woolery

Vice Presidents-Supply

J. L. Alm
Floyd D. Crowe
Roland Frederick
John D. Lyding
Harold T. Nelson
Walter J. Schoendorf

Vice Presidents-Service

Gaylord H. Hanson
Gordon W. Jones
Milton K. Kegley
William W. Liedtke
Robert M. Lyness
George D. Marshall
Gerald L. McGinnis
Harvey K. Naito
John L. Prehn
Richard C. Stratton
Ronald F. Zachary

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MAY 1984

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